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11 April 1974

MEMORANDUM FOR: Mr. Elmer E. Glaser
Agency for International
Development

SUBJECT : Repayment Terms for
Communist Aid to LDCs

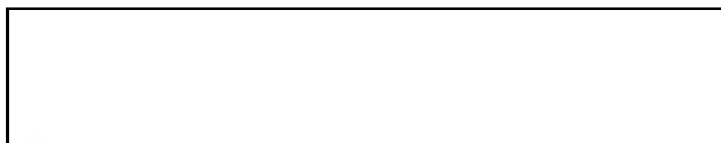
Attached is the briefing paper you requested in
your letter to Mr. Maurice Ernst on 8 April 1974 on
repayment terms for Communist economic aid to less
developed countries.

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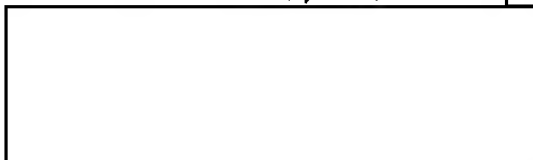
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Repayment Terms for Communist Economic
Aid to Less Developed Countries
(1954-73)

1. During 1954-73, the Communist countries extended some \$16.5 billion of economic aid to less developed countries (LDCs). Almost all of the aid was provided as credits with fixed terms of repayment. 1/ Less than 5%, or about \$750 million, was grant aid. The People's Republic of China (PRC) provided about \$450 million as grants, almost two-thirds to Cambodia, Nepal, and Pakistan. 2/ The USSR provided grants of \$280 million, one half of which was to Afghanistan, largely for road construction. East European countries provided only negligible grant assistance.

2. The terms of repayment of Communist economic credits to the LDCs have changed little during the 20 years of the program. Chinese repayment terms always have been the most liberal, usually interest-free and requiring repayment over 10 years after 5-10 year grace periods. In some cases, China permitted longer repayment periods. On its \$400 million credit extended in 1970 for the Tan-Zam Railroad, Peking allowed 30 years after a 10 year grace. New Chinese aid extended in 1973, for the most part, allowed 10 years for repayment after a 10 year grace period.

1. Includes credits with amortization periods of five years or more.
2. Includes credits extended to Pakistan during 1964-68 that were converted to grants in 1972.

3. Most Soviet credits continue to call for repayment over 12 years beginning one year after project completion and carry interest of 2.5%-3%. These terms usually are applied to project-type aid administered by the Soviet State Committee on Foreign Economic Relations. About 70% of the \$8.7 billion of Soviet aid extended since 1954 has carried these terms.

4. Moscow has allowed longer repayment periods on about \$1.3 billion of its aid. Nearly \$400 million extended to Afghanistan is repayable over 19-25 years with grace periods of 8-25 years. Algeria, Turkey, and Yemen (San'a) received more than \$685 million of credits calling for repayment over 15 years.

5. About 15% of total Soviet aid consists of supplier-type credits provided by the Soviet Ministry of Foreign Trade. These credits, which Moscow calls "commercial credits", sometimes are allocated by recipient governments to private companies. They allow 5-10 years for repayment, carry interest of 3%-3.5%, and require downpayments of up to 25%. Except for Chile, almost all Soviet aid to Latin America has consisted of such credits. The first major Soviet credit of this type was a \$100 million extension to Argentina in 1958. ^{3/} During 1964-67, the USSR extended some \$775 million of these credits, more than two-thirds to Egypt, India, and Pakistan. Since 1968, Latin American countries have received about \$90 million of the 5-10 years credits, Iraq approximately \$140 million, and Egypt, about \$95 million. This

3. This credit was reduced to the amount drawn (\$29 million) when it expired in 1961.

type of aid has not reduced Soviet project assistance, as is sometimes assumed, but in fact has declined as a percent of total new aid extended, from almost 30% during 1964-67 to about 15% in 1968-73. No supplier-type credits were extended during 1973, although a 2 million ton grain sale to India in October (valued at \$350 million) allowed only 5 years for repayment (probably in grain) after a 2 year grace period. The credit was interest free.

6. East European aid almost always carries harder terms than Soviet or Chinese aid. Downpayments often are required, repayments usually are made over 5-8 years, and interest normally is set at 3%-3.5%, although it has ranged up to 7%. These aid terms have been softening in recent years, however, as a number of 10 and 12 year credits have been extended, often with 2.5% interest. In 1971 about 45% of Eastern Europe's aid to Latin American countries carried 12 year repayment periods and in 1972-73, more than one-half of the aid provided allowed 10-12 years for repayment. Czechoslovakia's \$100 million credit to India in 1973 allowed a 3 year grace after which repayments are to be stretched over 12 years for equipment deliveries. For component deliveries, the credit allowed a 1 year grace with 10 years for repayment. Interest for both categories of aid was set at 2.5%. These are the most lenient terms Czechoslovakia is known ever to have extended. Poland's \$100 million credits to Algeria and Iran in 1973 are believed to have carried 12 years for repayment and 2 1/2% interest, compared with Warsaw's usual 8-10 years, 3%-3.5% terms.

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7. Most Communist credits allow repayment in the local currency or goods of the aid recipient. The exceptions to this rule generally apply to countries, such as Indonesia, that do not have clearing agreements with Communist countries. Goods used for repayment often are the output of Communist assisted plants. Some of these arrangements are highly advantageous to donor countries, such as Iran's and Afghanistan's repayments to the USSR in natural gas, Iraq's repayments to Moscow and certain East European countries in crude oil, Guinea's repayments in bauxite, and the dozen or so countries that pay for Soviet fisheries assistance by allowing the use of their shore facilities and extending port rights to the Soviet fishing fleet.

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